

**Nguyen Thi Hoang Nhien**

**THE COMPETITIVENESS OF VIETNAMESE COFFE INTO  
THE EU MARKET**

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**ABSTRACT**

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<p>Coffee industry is a new industry in Vietnam. Coffee was introduced into Vietnam when the global coffee market was growing strongly and coffee has been known in Vietnam since 1857. Through over 150 years of existence and development, coffee has now become one of the major agricultural products for exports of Vietnam, ranked No. 2 after rice, traditional food crops in Vietnam. With that position, Vietnam is now the 2nd largest nation of exporting coffee in the world after Brazil, particularly for exporting Robusta, Vietnam is the leader in the world. Coffee exports have contributed significantly to the economic growth of Vietnam, reducing the trade deficit and partly solved the problem of poverty reduction for people, especially in rural areas. In particular, the EU market is the largest consuming market and coffee importer in the world, as well as export-oriented market of Vietnamese coffee. This is a potential market for Vietnam in particular coffee items and most other commodities in general. However, not only Vietnam, but many other countries have also focused on developing exports of coffee to the EU, competition is becoming increasingly fierce. Vietnam needs to analyze and improve the competitiveness of Vietnam's coffee products exported to the EU market.</p> <p>This thesis uses main methods like synthetic methods, statistical methods and analysis, comparative method. Thesis structure includes contents related to general theory of competitiveness and the need to improve the competitiveness of Vietnam's coffee exports to the EU, competitive situation of Vietnam's coffee exports to the EU and measures to improve competitiveness of Vietnam's coffee exports to the EU.</p>		

**Key words:**

Competiveness, coffee, Robusta, Abrica, the EU market.

## **PREFACE**

To complete this thesis, I would like to give deep gratitude to Mrs. Birgitta Niemi, and her enthusiastic guidance during writing the graduation report.

I sincerely thank my teacher, Mr. Janne Peltoniemi, the head of the degree programme as well as my finance teacher, he was dedicated to impart knowledge in the academic students. With a wealth of knowledge to be acquired in the course of not only the foundation for the research thesis but also the precious baggage you brought into this world to firmly and confidently.

Finally, I would like to send many thanks to my family and friends, who inspired and supported me to write this thesis.

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## **1 INTRODUCTION**

The coffee industry is a new industry in Vietnam. Coffee was introduced to Vietnam when the coffee market world trade flourished and has been known in Vietnam since 1857. Through more than 150 years of existence and development, coffee has now become one of the major agricultural exporting products of Vietnam, which is ranked number two after rice, a traditional food crops. Vietnam is the second largest coffee exporting nation in the world after Brazil. Moreover, with its own production of Robusta coffee, Vietnam is the world leader.

Vietnam has applied the learning knowledge to systematize theoretical basis for competitiveness, through analyzing and evaluating the competitiveness of Vietnam coffee products exported to the EU market. Moreover, pointing out the strengths and weaknesses compared to competitors and its causes, in this thesis, a number of measures to enhance the competitiveness of Vietnam's coffee products exported to the European market are proposed.

The object of the research is to find the competitiveness of Vietnamese coffee products exported to the EU market. The scope of the research focuses on the competitiveness of Vietnam coffee exports into the EU market scope, mainly in the 2011-2015 period. It also relates to the forecasting and navigation, which offer a number of solutions for the period until 2020. The coffees mentioned in the thesis research are green coffee, roasted coffee and instant coffee.

The thesis uses as main methods an integrated approach, methodology and statistical analysis and comparative method. The integrated method aims to collect data and information on communication; statistical methods and analysis are to clarify the theoretical issues and the government of competitiveness of Vietnam's coffee products exported to the EU. Finally, a comparative method commonly used is to clarify its position over Vietnam as well as the conclusions in specific circumstances.

## 2 COMPETITIVENESS

The term of competitiveness is widely used in many fields but still does not have a specific definition. The term of competitiveness can be partly understood by following different concepts.

### 2.1 The concept of competition

The term "competition" is commonly used in many fields, such as economic, commercial, law, military, politics, sports and so on. Furthermore, this concept attracts the attention of many actors, which is considered in the corners in different levels depending on the approach of each subject. Therefore, there are many concepts revolving around the term of "competition".

According to the Business English Dictionary, competition is “the rivalry in which every business tries to get what other businesses are seeking at the same time: sales, profit and market share by offering the best practicable combination of price, quality and service”.

In economic and political sciences, K. Marx defined competition as a rivalry, the economic struggle between the actors involved in the production and trading together to gain favorable conditions in the business production and consumption of goods and services in order to maximize the benefit (Vietnamese Ministry of Education and Training 2004, 48.)

M. Porter, an economist of the United States, said that the competition is gaining market share. The essence of the competition is to seek profit, which is higher than the current average return of a company. The result of the competition is the average profit of the industry trend of improved deep consequences resulting prices may decrease. (Porter, 1998.)

Briefly, competition is the rivalry or the struggle among business entities together on a particular market of goods to get their customers, for the purpose of selling more goods and getting higher profits. The competition plays a key role to motivate the development of production and contribute to the economic development.

## **2.2 The concept of competitiveness and the level of competitiveness**

The term of competitiveness is widely used in many fields, but until now experts and scholars still do not have an exact concept of this term. However, it can be understood that competitiveness is the ability to survive in the business and achieve some desired results, expressed as profits, prices, income or quality of products as well as capability of exploitation for opportunities in the current market and raises opportunities in the new market, gain advantages for themselves and make a profit. (Porter, 1998.)

The levels of competitiveness include national competitiveness, sectorial competitiveness, enterprise competitiveness and product competitiveness. (Porter, 1998).

### a) The national competitiveness

Referring to the national level, competitiveness at this level often depends on the productivity of human resources and capital resources of that country. It is associated with the competitiveness of all actors within the economy.

At the United Nation forum, in a report on global competitiveness in 2003, the competitiveness of a country is defined as the ability of that country to achieve rapidly and has sustainable gains in living standards, which means that to achieve high economic growth rates, determined by the level of change of the total gross domestic product per capita by year. (Young Entrepreneurs Magazine, 2010).

According to the competition committee of the US industry, it is the extent to which under the conditions of free and fair market, the country can produce goods and services to meet the demands of the international market health, while maintaining and expanding real incomes of citizens. (Young Entrepreneurs Magazine, 2010).

From above point of view, it can be understood that the national competitive advantage is the ability to leverage the resources, management capability and administration of that country to create the economic environment, social and legal institutions that are favorable for all economic sectors' activities for attracting investment, ensuring sustainable stability, achieving high economic growth and raising living standards of the people.

b) The sectorial competitiveness

It is examining the possibility of bringing industry profitability, which is based on its database of resources effectively. Efficiency and competitiveness of the sector are compared based on correlation with other industries. According to Porter, the intensity of competition in any industry influenced by five forces that are power suppliers, the risk of substitution, the barriers to entry, customer strength and the level of industry competition. In a growth market sectors, the ability to maintain market share and high opportunities for gaining profits will be easier to attract new firms joined, increasing the level of competition in the industry, including the domestic market and internationally. Therefore, the sectorial competitiveness is the ability to maintain or grow the profitability of the businesses involved in the industry on the domestic market and internationally.

c) The enterprise competitiveness

The competitiveness of businesses is the ability to maintain and enhance the competitive advantage in the marketing of products, expanding sales network, attracting and using efficiently the factors of production to achieve high economic growth benefits and ensure sustainable economics. The competitiveness of businesses associates with the advantages of enterprise products to market with market share of products and business production efficiency. The competitiveness of businesses are affected by many different factors, including external factors such as market businesses, institutional policies, infrastructure and inner elements inside itself as the level of technology, the ability to organize management, finance, human resources or reputation. (Tuan, 2010, 9.)

d) The product competitiveness

Mr. Le Van Duoc, the Director of the Plan, the Ministry of Industry of Vietnam said that “The competitiveness of a product is expressed through the comparative advantage for products of the same type. Comparative advantages of the products due to inside and outside factors created, such as production capacity, production costs, product quality and market size of the product. The competitiveness of a product can be measured by the market share of such products on the market.” (Vietnamese industry magazine, 2004.)

A product with a high competitiveness must ensure the elements of quality, price, sanitation and associated services, designs and models and speed of service. Besides that, the product need to have novelty but fit with demand and bring a higher value in usage



than the same products in the market of competitors. The level of competitiveness is dependent relationships, cohesion, interaction and mutual support for development.

### **2.3 Export competitiveness**

Whan-Kan defines that:

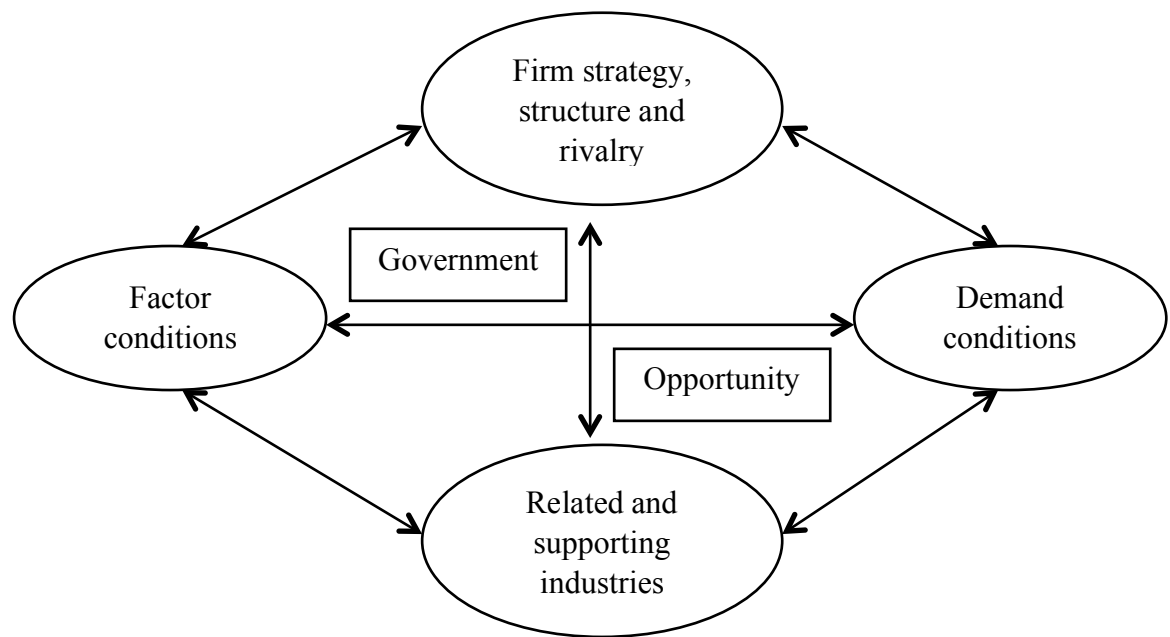
Export competitiveness is the ability of the country to produce and sell goods and services in foreign markets at prices and quality that ensure long-term viability and sustainability. (Whan-Kan. n.d.)

According to a report of the World Bank Group, the competitiveness of a nation relates to that nation's policies aiming to increase the capacity of selling products and services to foreign countries, achieve economic growth that is the export competitiveness. According to this thinking, export becomes a final orientation and purpose of economic policies. (Christian, 2010.)

The export competitiveness of a nation is a different definition with the national competitiveness advantage. If the national competitiveness advantage mentions macroeconomic factors of a country, the export competitiveness advantage mainly belongs to macro business, limited by a specific product. However, there is a connection between these two definitions. The competitiveness of a country in a commodity affected by that enterprise production item. The competitiveness of these businesses is affected by the national competitiveness. If the country has good institutions, competitive environment of transparency and equality, businesses will have more opportunities to develop their competence, creating added value for their products, which compete with the competition from other countries. (Christian, 2010.)

### **2.4 Main factors affecting competitiveness according Porter's Diamond**

In the book "The Competitive Advantage of Nations" of Michael Porter, he gives the model of diamond that brings an overview of factors of nation advantage. They are factor conditions, home demand conditions, firm strategy, structure and rivalry, and related and supporting industries. For all four components, as well as each component, is influenced by two external factors that are the government and opportunities.



GRAPH 1. Factors affecting competitive advantage (Porter, 1998.)

a) Production factor conditions

Production factors can be divided into:

- Fundamental group: advantages in location, climate, natural resources and human resources.
- Senior group: infrastructure, information systems, labor skills, science and technology.

These economies are holding these elements at a low cost will gain a competitive advantage, especially senior competitive factors, because these factors' group requires long-term investments, laborious effort and the focus on both human and material resources, helping to create unique products, bringing advantages to compete in the market. However, the basic input factors are also important, as the basis to build and develop the advanced inputs.

❖ Natural condition

It includes factors such as temperature, climate, humidity and soil fertility. These factors will impact on the quality and natural flavor of the plant in general and coffee in particular. In each region, there are different climatic conditions and soil, so coffee also has taste in distinct characteristics. Coffee is suitable to develop in areas with rich soil,

wide area, equatorial climate and suitable terrain elevation. Besides, they must also consider the network of rivers and canals, the acidity of the water and groundwater.

❖ Human resource

It must ensure both the quantity and quality. The quantity refers to the amount of labor in the industry as growers, the number of companies producing, processing, importing and exporting. And quality is the ability to understand, qualify and skills of labor force. Besides, taking into account the cost of personnel, management, hours of work and the level of investment in research

❖ Capital

It is from many different forms through the channel to mobilize domestic capital or investment capital from abroad. In addition, there is also the scale of capital investment for production and export business of coffee, mobilization degree.

❖ Infrastructure

It is expressed through the system of roads, transportation, biotechnology, improved manufacturing, processing, irrigation projects and irrigation systems. Applying many types of science technology will contribute to increase production capacity and improve product quality coffee.

b) National conditions

Demand for domestic coffee businesses will decide what and how to produce, in addition to affecting export competitiveness, because the development of domestic demand will the give standards, that put pressure on businesses to continuously improve products in quality with lower costs to meet the demand. From the demand in that country, it also helps predict demand trends of buyers in foreign markets in order to create new products and may go ahead of competitors. Enterprises should pay attention to the quality of the demand rather than the quantity of demand in determining competitive advantage. M. Porter argues that a country's enterprises gains competitive advantage if the consumer sites in this country have the high savvy and demand. The customer requirements and demanding would push businesses to meet the high standards of product quality, features and services, thus improving the products and entering new markets with a higher level.

c) Related and supporting industries

It is clear that a key industry thrive will surely entail the development of many related sectors. Besides, supporting industries and related development will help key sectors with competitive advantages to reduce input costs, improve service quality and support for production activities. Support industries and related sectors of coffee industry such as fertilizer industry and plant protection products, transport carriers, processing technology or biotechnology. Fertilizer industry development will help reduce the need to import fertilizer from abroad, lead to lower fertilizer prices, which farmers reduce input costs. Transport carrier development makes the process efficient transport, ensuring timely delivery, enhancing the prestige and export competitiveness. Processing technology development helps to create coffee products of high added value, quality is improved, thereby gradually building a brand for export coffee from Vietnam. Therefore, the industry and related support have great influences to the competitiveness of export coffee. (Nguyen Hang, 2011.)

d) Firm strategy, structure and rivalry

The coffee sector's competitiveness in the domestic market will affect the success of local businesses in the international market. The success of a business in the country will attract new competitors to entry and make the existing competitors strive to find ways to improve production efficiency, which increase the strength of the business. The level of competition in the country will create increased pressure for innovation and creativity that improve quality, reduce costs and invest in the upgrading of advanced elements, to help businesses more power, stronger and more competitive in both the domestic market and internationally.

However, the competitive environment in the industry also needs a healthy and strong industry structure. Stakeholders in the coffee industry needs the close cooperation with each other, namely between farmers, export processing enterprises and the government. Enterprises do not always confront each other. The confrontation may result in the parties that will be all losers. The cooperation between enterprises can be mutually beneficial with sharing profit. Thus, both can jointly develop, while they can generate power for facing the threat from foreign competitors. A closely industry structure will also operate in the industry becomes smoother, for example, supporting capital, technique and coordination with farmers will help farmers improve crops and raise productivity and quality. Besides

that, the enterprise also will be more secure in purchase and coffee quality assurance helps build credibility for businesses. (Nguyen Hang, 2011.)

e) The role of the government and opportunities

The government can impact positively or negatively on the competitiveness of exports, in fact, mostly are positive impacts. Subsidies from the government, the education policy, the economy and regulations of the capital market conditions are affecting production factors. The government affecting domestic demand conditions is through the establishment of standards and regulations in coffee, affecting the needs of the buyer. The impact on the industry and related support is through the issuance of a decision on support services. The government develops and improve law's environment that will create fair and healthy competition among enterprises, help to efficiently use human resources of the economy. The government provides laws of taxation and trade promotion programs to create conditions to promote coffee exports to foreign markets.

Another factor that has an impact on the competitiveness of exports is the opportunity factor. The opportunity plays an important role because they can lead to major changes in the competitive position, disabling the competitive advantage of existing enterprises and creating conditions for enterprises to adapt to the situation each. The opportunity may be the birth of a new processing technology, the political decisions of foreign governments, foreign exchange rate changes, finances and demands. Therefore, businesses need to quickly seize the opportunity and promptly adapt to change, improving the competitiveness of coffee exported to the world market.

## **2.5 The criteria for assessing competitiveness**

a) Revealed competitive advantage (RCA)

The formula for determining the existing competitive advantage is revealed competitive advantage. The formula used is common in defining comparative advantages of each specific item in certain periods. This recipe is one of the tools used to build a database of comparative advantages of membership in the World Trade Organization (WTO) (Lang, N. T., 2011.)

$$RCA = 100 (X_{ij}/X_{wj})/X_{it}/X_{wt})$$

In which: RCA is the only comparative advantage of the existence of commodities i of country j in a certain period.  $X_{ij}$  is the commodity exports of countries i j in the corresponding period, w- world, t- total exports worldwide.

Calculation results:

- $RCA < 1$ : the product has no capacity of competitiveness
- $1 < RCA < 2.5$ : the product has a low capacity of competitiveness
- $RCA > 2.5$ : the product has a high capacity of competitiveness

When comparing RCA coefficient of the same product of the two countries, the country has a greater coefficient of RCA will have the higher export competitive advantage.

#### b) The market share

The market share reflects a country's position on a particular item on the market. When the share of an item of that country is larger such items as has a stronger competitiveness, the competitiveness of the commodity for the market is higher. If the market share is far ahead of other rivals that means product of that country has higher competitive advantages in competition to dominate the market. The market share is calculated using the following formula:

$$MS = (MA/M) \times 100\%$$

In which: MS is the market share of the product M of the country A exported into the market X. MA is exported output of the product M of the country A exported into the market X. M is the total export volume of the product M of the world exported into the market X.

#### c) Production expense

Production costs high or low is also a direct indicator of export competitiveness. When the cost of production of a country is higher than in other countries, the competitive advantage will be diminished. It depends on the following factors: the import tax, sales tax, value added tax, surcharges, wages, technology used, marketing expenses, cost of services such as communications, telecommunications and carriage. One of the indicators determines the cost of production may be mentioned is the domestic resource cost (DRC).

### **3 OVERVIEW OF THE EU COFFEE MARKET**

Although the EU is the biggest market of coffee consumption in the world, it is also a high competitive market for many suppliers. Besides that, there are many restrictions for products, exported into the EU market. Moreover, European people also have high requirements for products.

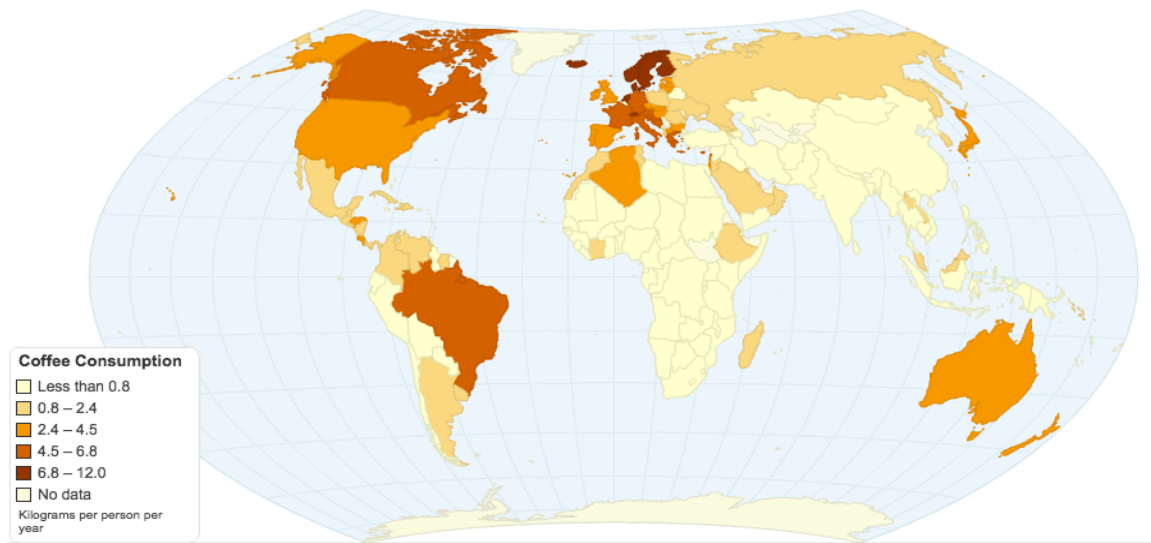
#### **3.1 Demand and supply of coffee in the EU market**

With a high consumption of coffee, the EU has become a potential coffee market in the world. Coffee drinking seems to be a habit of European people. Curiously, all top coffee drinking countries are in Europe. Therefore, Vietnam is also focusing to enter into the EU market.

##### **a) Coffee demand in the EU market**

According to the European Coffee Federation (2015), in the 12-month period of 2013-2014, the total volume of coffee export was 6.5 million tons. The EU is becoming the largest importer of coffee, which accounted for 45 per cent of all export. Besides that, the EU is known as the destination with the highest rate of the coffee consumption per capita in the world in the period of 2005-2015. Some 2.5 million tons coffee are consumed per year in the EU, which equates to 4 kg of roasted coffee per European person per year. Total cups of coffee drunk in the EU are 725 million.

Graph 2 below demonstrates the main five coffee consumption nations and the majority of them are from the EU area. It is clear to realize from the graph that Finns are among the greatest coffee consumers in the world. The average annual coffee consumption amount in Finland is around twice of other countries in the EU, which means 12 kilograms coffee will be consumed per person every year in Finland. Following high coffee consumption countries are also in the European area such as Germany (6.4 kg per capita/year), Austria (6.1 kg per capita/year), Italy (5.9 kg per capita/year) and France (5.4 kg per capita/year). It is obvious that Brazil and Canada is the 3<sup>rd</sup> coffee consumers in the world (ChartsBin 2011.)



GRAPH 2. The map of worldwide annual coffee consumption per capita, modified from Europa.)

The coffee consumption in the EU in the period of 2010-2013 had a fluctuate growth. From 2010 to 2011, the coffee volume of consumption in the EU remained a stable rate with above 2.3 million ton each year. This amount increased remarkably in 2012, which is more than 6.1 million ton. However, in 2013, the coffee consumption volume in EU decreased with the same volume in the period of 2010-2011, which is 2.4 million ton. These amounts of coffee consumption are served the demand of domestic consumption as well as export.

TABLE 1. Coffee production output in EU and EFTA countries in the period of 2010-2013 (Unit: Ton) (ECF 2014.)

Year	2010	2011	2012	2013
Quantity	2,408,970	2,317,345	6,165,078	2,464,165

#### b) Coffee supply in the EU market

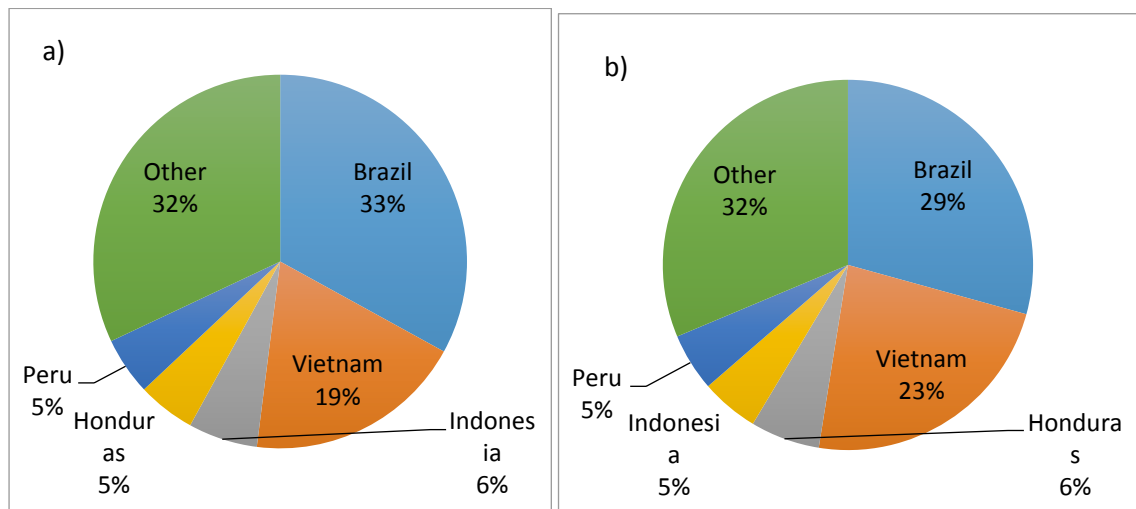
To meet a big demand of domestic consumption, the EU has imported a large amount of coffee from other countries in the world. There are many big suppliers with high coffee quality such as Brazil, Colombia and so on. The coffee market in the EU is very competitive.



The main imported coffee products into the EU are green coffee, roasted coffee and instant coffee. Green coffee is imported with the most volume for serving the business demand of processing and exporting abroad. According to the daily coffee news, the EU accounts for nearly half of the world's bean imports (Nick, 2014). The quantity of roasted coffee exported to the EU increased dramatically in the period of 2010-2013, from nearly 40 thousand tons to 45 thousand tons. In contrast, instant coffee exported to the EU had a drop of 5 per cent in volume in 2013, compared to 2012 (TABLE 2). Europe is a market with high demand of quality. European consumers always consider about product safety, environmental sustainability and decent working conditions, and require that producers and service providers adhere to a high quality and ethical standards.

TABLE 2. The total import product structure in the EU in the period of 2010-2013 (Unit: Ton). (ECF 2014.)

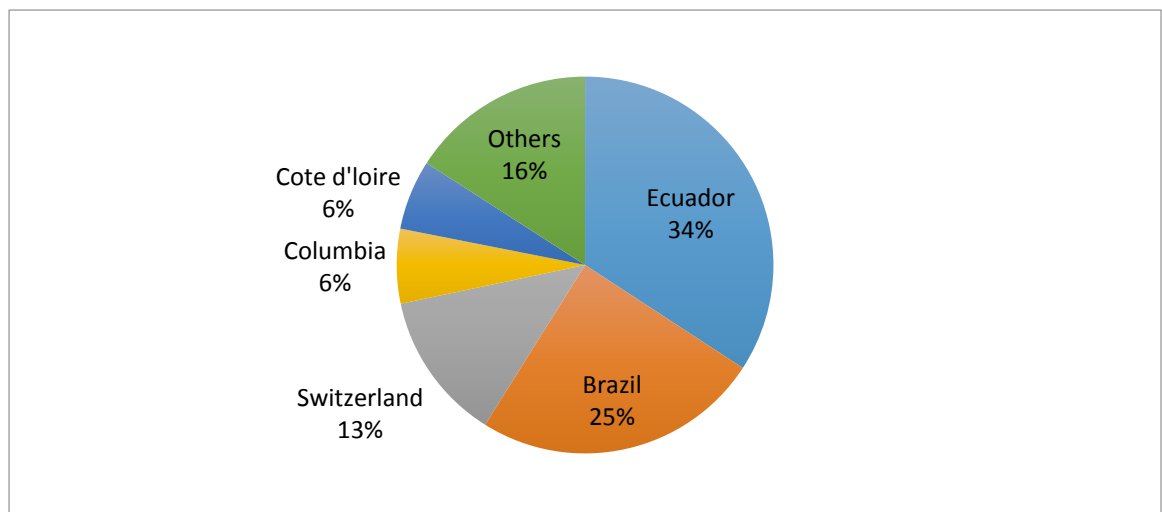
	2010	2011	2012	2013
Green coffee and Green coffee, decaffeinated	2,751,790	2,757,942	2,793,445	2,812,775
Roasted coffee and Roasted coffee, decaffeinated	34,917	39,055	42,071	45,212
Instant coffee	46,672	42,002	51,106	48,615



GRAPH 3. Top five EU's green coffee suppliers: a) 2009 and b) 2013 (Europa 2014.)

It can be seen from Graph 3 that Brazil and Vietnam have consistently been the top-two biggest suppliers of green coffee for the EU for quite a few years. However, the 3<sup>rd</sup> position, which traditionally is Colombia, has changed overtime. This position changed to Indonesia in 2009 and 2010, to India 2011 and now to Honduras 2012 and 2013. In 2013, Brazil kept on being the significant green coffee supplier to the EU with the high volume of 13.4 million bags. Followed by Vietnam, which still kept its position as the second, with a lower volume of nearly 12 million bags. However, it is obvious to see that the volume of green coffee imported from Vietnam has increased from 2009 to 2013 by 4 per cent. When compared to Brazil, there was a drop of 4 per cent of green coffee export to EU in the same period. As specified, Honduras took the 3<sup>rd</sup> place in 2013 with the volume of 300,000 bags, followed by Indonesia and Peru. Some countries have dropped their position in exporting products to the EU. For example, Columbia or Indonesia. Significantly reduced crops, due to the temporary effects and adverse weather conditions, caused this. (ECF 2014.)

Beside the green coffee, the soluble coffee is also imported to the EU from non-EU countries. The following Graph 4 shows the five top non-EU suppliers of soluble coffee of the EU in 2013, which are Ecuador (16,693 tons, 34.5 %), Brazil (12,010 tons, 24.7 %), Switzerland (6,223 tons, 12.8 %), Columbia (3,088 tons, 6.4 %) and Cote d'Ivoire (2,939 tons, 6 %). (ECF 2014.)



GRAPH 4. The EU's imports of soluble coffee from non-EU countries (Huong & Michael, 2014.)

In brief, the EU is an attractive market that coffee exporting towards. Therefore, Vietnam should make an effort to improve its competitive advantage further to take the leading position and to strengthen its position compared to its competitors, such as Brazil, India, Colombia and other export coffee countries in the world.

### **3.2 Regulations to control the import of coffee into the EU market**

EU is one of potential markets for countries to export their products, but it is also famous with strict regulations, which aim to control the export. The common regulations relate to tariff, quantitative restrictions, technical barrier.

Europe has applied the Common Custom Tariff, which is based on the Harmonized System. The Common Custom Tariff of the EU has different rates of duty. The rates depend on the economic sensitivity of products.

- Group 1: Agreements for imports from countries with the implementation of the “Most Favorite Nation” (MFN).
- Group 2: Agreements for imports from developing countries. The preferential treatment is non-reciprocal.
- Group 3: Special agreements for the least developed countries. The GSP grants these countries duty-and-quota-free access for almost all their export.

The EU’s generalized system of tariff preference (GSP) gives lower duties or totally duty-free access for imports from 178 developing countries and territories into European market. Furthermore, 49 least developed countries are granted special benefits from European scheme and this scheme also brings benefits to countries implementing certain labor or environmental standards. Europe offers the reference without requiring for concessions form the beneficiary countries. The EU imports take the benefits of 53 million euro from GPS preferences.

EU has used non-tariff measures that are mainly to protect production and domestic consumption. Coffee products imported into the EU must meet the conditions of the technical standard system, which includes five standards. They are product quality standard, food hygiene standards, food safety standard, environment standard and labor standard (ECF 2015)

Besides that, coffee imported into the EU must follow other administrative policies to control the import such as anti-dumping policy; against export subsidies and application of tax for against export subsidies. (Vietnamese Ministry of Education and Training 2004, 48.)

## 4 VIETNAM'S COMPETITIVENESS IN THE EU VALUE CHAIN OF COFFEE

Although the Vietnamese coffee market has repeatedly fallen into crisis because of the crisis of the world coffee market, the coffee market in Vietnam is gradually stabilizing. Additionally, when Vietnam joined into WTO in 2006, this has opened many business opportunities to export coffee from Vietnam and bring Vietnamese coffee into the EU market. This helps Vietnam increase its economic growth.

### 4.1 Vietnam coffee industry

Vietnam is an agricultural country, planting rice, coffee, tea, pepper, cashew etc. The areas of rice and coffee plants are biggest. These agricultural products become the main economic production in Vietnam and bring a better life for the Vietnamese people.

#### a) The development of Vietnam coffee industry

In the recent couple of years, Vietnamese coffee has been becoming popular in the world by its fast developing speed since French colonists first introduced coffee trees to Vietnam in 1857. It was initially planted in the areas of places of worship in Ha Nam, Quang Binh and Kom Tum provinces. Toward the beginning of the twentieth century, coffee trees were expanded and plant largely at Phu Quy- Nghe An by French owners, and later were planted at Daklak and Lam Dong. (Nhan, 2001.)

In 1975, the total coffee area in Vietnam was around 13,000 ha, producing 5000 to 7000 tons of green coffee in total. Thanks to the support of agreements between the government of Vietnam and other countries, such as the former Soviet Union, Hungary, the German Democratic Republic, Poland and Slovenia, coffee industry in Vietnam has developed rapidly in the central highland since 1975 (Nhan, 2001). It is notable that the production of Vietnamese coffee grew by 20-30 per cent every year in the 1990s, which has helped transform the economy in Vietnam (Chris, 2014).

Coffee Robusta is the main product in Vietnam, which accounts for more than 95 per cent of total output that is famous in the worldwide coffee industry. Beside the main proportion of Robusta coffee, Vietnam recently made an effort to develop the planting area of Arabica trees. (Thin, 2015.). Among Vietnamese agricultural product commodities, it is

no doubt that coffee is going on playing a vital role. Coffee brings turnover from the export of over US\$500 million every year, which ranks the second after rice. (Thin, 2015.)

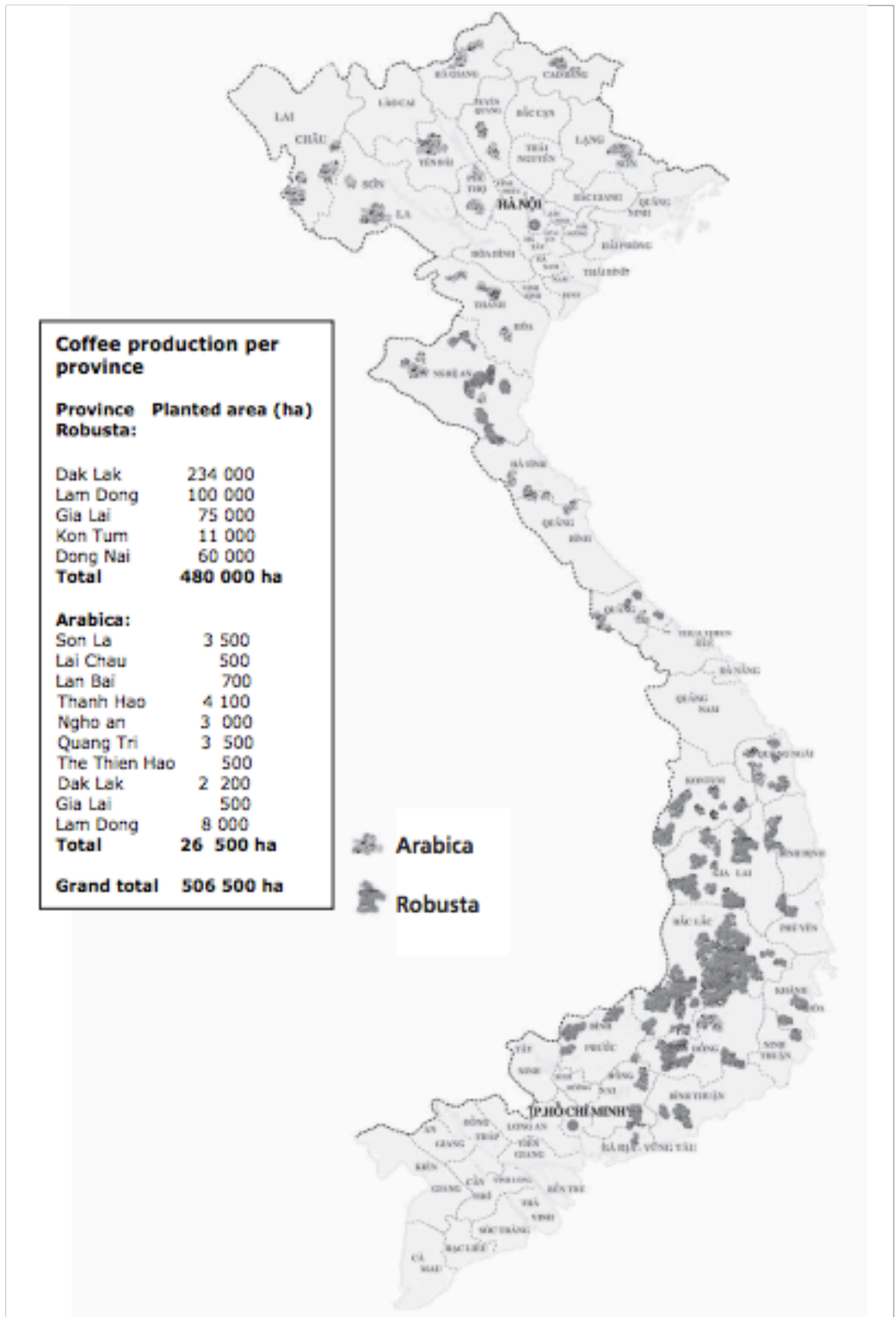
b) The distribution of coffee in Vietnam

Vietnam is located in the tropical belt of the Northern Hemisphere, where there is a suitable climate for developing coffee trees and making Vietnamese coffee with an exceptionally unique flavor. Particularly in the south, close to the equator, the characteristics of climate, hot and wet, are suitable for Robusta coffee trees, gathering in Tay Nguyen zone of which Daklak represents more than half of national output. The north of Vietnam with cool winters has good conditions for Arabica growth.

To be more specific, the area of coffee planting across the nation is 489,000 ha, concentrating mostly in Tay Nguyen regions. The greatest range for coffee raw materials of Vietnam is still Daklak province. The entire region has around 487,700 ha basalt soil, which is most suitable for the development of coffee tree, among them planting area is 190,300 ha. Robusta coffee trees are mainly planted in this area. Followed by Dak Nong and Lam Dong is the third. (Thin, 2015.)

The matter for Tay Nguyen provinces in general and Daklak in specific, is how to increase the value of coffee by cutting plating area of Robusta tree and expanding Arabica area, joining significance to escalated development, contributing handling industry, broadening ground coffee products. (Thin, 2015.)

The following map was produced by the Viet Nam Coffee and Cocoa Association (VICOFA) and shows the approximate locations of coffee production areas and amounts in Viet Nam.



GRAPH 5. Map of coffee production areas in Viet Nam (VICOFA.)

## 4.2 Vietnam coffee export into the EU coffee market

Vietnam has become the second biggest exporter of coffee into the EU, followed Brazil. However, thanks to lower costs in production, favorable natural conditions to have many bumper coffee crops, several experts believe that Vietnam has its potential to overcome Brazil and become the number one in exporting coffee.

### a) Export output and turnover

The exporting situation of Vietnamese coffee had a significant growth in export output and turnover over recent years. Coffee is currently the leading export product of Vietnam's agriculture and forestry product section. This implies that Vietnam's coffee is increasingly popular in the global market and the number of its coffee markets has expanded remarkably recently. To be clearly, Vietnam has exported coffee to 74 countries and territories and this number has reached 86 by the end of 2013. (VietTrade, 2014.)

In terms of export market, Vietnam's coffee is exported mainly to the EU area. According to a report issued by Vietnam's Ministry of Agriculture and Rural Development, Viet Nam exported 1.12 million tons of coffee beans, worth US\$2.31 billion in the first seven months (Oct.-Apr.) of 2014. When compared to the same period the previous year, there was an increase in coffee exports by 26.8 per cent in volume and 21.9 per cent in value. (Huong & Michael, 2015.)

Luong Van Tu, chairman of Association of Coffee-Cocoa Vietnam, said with the annual crop 2013-2014, the total production of coffee of Vietnam exported nearly 1.7 million tons, turnover over US\$3.4 billion (grew by 17 % in volume and 12.5 % in value over the previous year). When compared to output growth, export turnover increased quite slow because of fluctuations in export prices. According to the General Department of Customs, Vietnam has about 100 businesses involved in exporting coffee and the Vietnam's coffee will be exported largely over the world in the future. (TaiChinh, 2015.)

### b) Export product structure

According to Viettrade (2014), green coffee beans accounts for about 95 per cent of Vietnamese coffee exports, followed by 3-4 per cent of instant coffee and 1-2 per cents of roasted coffee. This because there are a weak processing capacity and lack of brands.



Robusta coffee accounts for more than 95 per cent of total output in Vietnam, while accounts for 41.3 per cent of Robusta coffee produced in the world. Arabica makes up 5 per cent in the Vietnamese total coffee export output although the price of Arabica is much higher than Robusta. As a part of the strategy to produce higher-quality coffee, Vietnam's government encourages to increase the target for the Arabica beans to account for 8 per cent of the total coffee growing area by 2020 by the way of promoting the adoption of Arabica in the Vietnamese industry.

Roasted coffee and soluble coffee are exported into the EU market with a small proportion. In 2011, 83.7 tons of roasted coffee and 259.4 tons of soluble coffee were exported to the EU, which is a negligible quantity compared with the total output of Vietnam's coffee export to the EU. The major items of coffee are only simple processed coffee products. In which, the roasted, which is decaffeinated, accounts for 0.2 tons, and 83.5 tons is roasted coffee containing caffeine. Processing coffee with high technical and modern requirements is produced very little in Vietnam. (Viettrade, 2014.)

#### d) Export prices

In the first six months of 2014-2015, the average export price of Vietnam's Robusta coffee was US\$ 1,910/Metric Tons, which is an increase by 9 per cent over the same period of the previous year (US\$ 1,756/Metric Tons), but this is still a decrease of 1.8 per cent from 2012-2013 as shown in Table 3.

Some websites outlined that the green coffee bean costs are still low at around US\$ 1.7/kg in the period of 2013-2014. Thus, farmers try to keep their harvests and waiting for the price to increase. This caused a decrease of coffee export volume in this period. However, many experts forecast that until the final months of the year, the coffee prices will increase again and be projected to stabilize in 2015 because the supply from the largest coffee market, Brazil, is decreasing. Forecasted coffee prices will be above US\$ 2/kg and export prices will more than US\$ 2000/ton.

The high international prices encourage farmers to sell their harvests from the beginning in January and this led to a significant increase in Vietnam's exports in March and April. Besides that, many ideas from the local exporters forecast that if the prices remain at

recent high levels (above US\$ 2,000/Metric Ton), the volume of Vietnam's coffee export will continue developing rapidly and successfully in the coming months.

TABLE 3. Average export prices for green coffee 2012/2013-2015/15 (ECF, 2015.)

	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	Average export price for 7 months (Oct.-Apr.)
2012/13	\$1993	\$1818	\$1853	\$1790	\$1923	\$1992	\$1988	\$1908
2013/14	\$2022	\$1849	\$1827	\$1887	\$2003	\$2088	\$1985	\$1908
2014/15	\$2663	\$1533	\$1728	\$1718	\$1874	\$2017	\$2040	\$1908
% Change 2013/2014 over 2012/2013	-18%	-17%	-5%	-9%	-6%	-3%	2.8%	-8%

#### 4.3 The assessment of the competitiveness of Vietnam's export coffee into the EU market

To assess the competitiveness of Vietnam's coffee products exported to the EU, it is used the quantitative indicators that are the coefficient of RCA, market share, cost of production and export prices, compared with other competitors in this market. When considering the RCA coefficient, it is calculated based on the correlation between export turnovers of Vietnam to the world of coffee items. However, since market research is the EU, it will be a comparison of RCA coefficient of Vietnam with the nation's leading coffee exporters to this market.

##### a) Revealed competitive advantage (RCA)

According to calculation based on the source from International Coffee Organization, the following Table 4 shows the RCA index of some coffee exporters to the EU in 2010.

TABLE 4. The RCA index of export coffee to the EU of some countries in 2010 (ICO 2010.)

Honduras	Columbia	Brazil	Vietnam	Peru
113.75	56.72	27.69	25.24	24.58
Côte d'Ivoire	Guatemala	Switzerland	Indonesia	Ecuador
17.50	77.28	6.02	4.99	10.44

The statistics from the Table 4 illustrate that the bigger RCA is, the higher competitiveness is. The Latin American countries have the highest RCA index, such as Honduras, Guatemala, Colombia, which are very famous in exporting high standard coffee of Arabica. Compared to these countries, Vietnam has a lower RCA index. However, it can easily be realized that the competitiveness of Vietnam's export coffee is much higher than that of Asian countries, such as Indonesia or India. Besides that, the index of Cote d'Ivoire, Ecuador and Switzerland are lower than Vietnam's index, which imply that the competitiveness of export coffee to the EU is weaker than Vietnam is, but these countries are the leader of soluble coffee in the world.

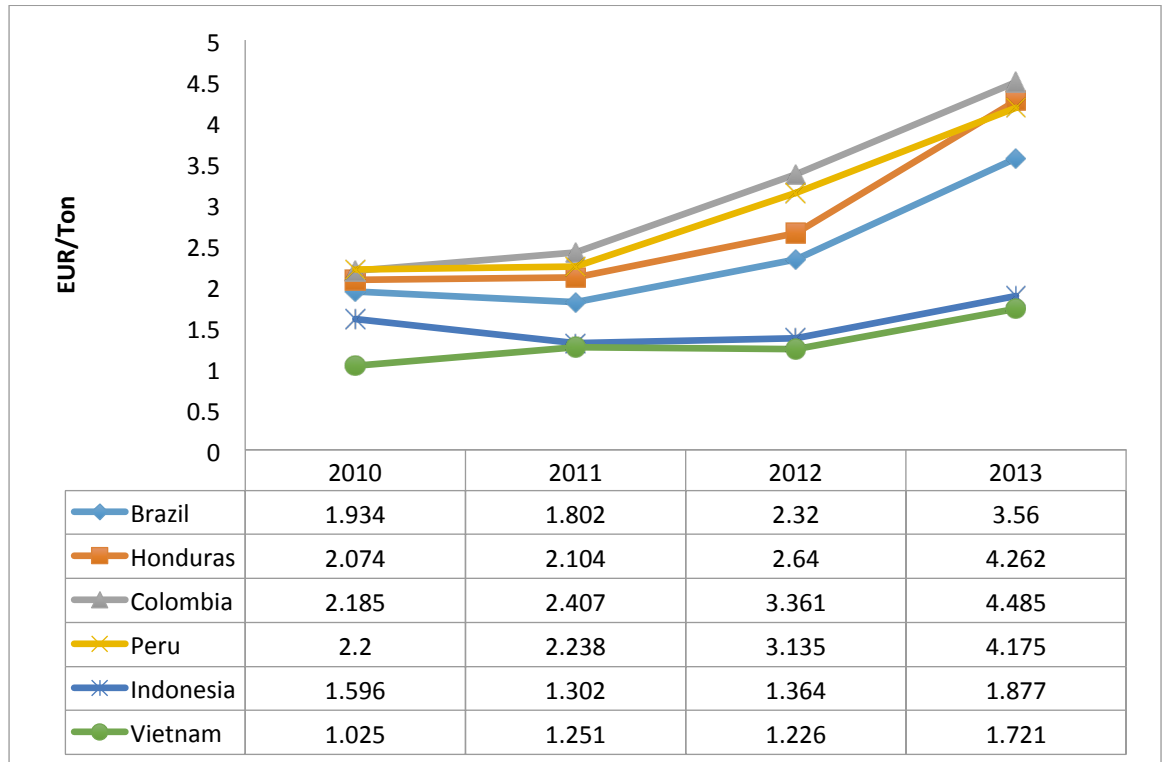
#### b) The export market share

The EU is a biggest potential export market of coffee in the world, which imports coffee from more than 110 countries worldwide. Therefore, Vietnam currently competes very intensely in this market, especially with traditional and experienced export countries, such as Brazil, Colombia and other Latin America countries as well as other Asian countries.

In general, the rate of export coffee of Vietnam to the EU is quite high, accounting for 23 per cent of total European import coffee output in 2013. Vietnam is ranked of the second biggest coffee exporter for the EU, after Brazil (29 per cent). Brazil and Vietnam are the top two of export coffee, accounting for a half of total export coffee output of the EU. The third position is Honduras with the rate of 6 per cent and followed by Indonesia with 5 per cent. It is clearly realized that Vietnam has a high competitiveness in the export market.

#### c) Export's prices of coffee

There is no doubt that the cheaper product will attract the customers more, which brings more competitiveness of products in the competitive market.

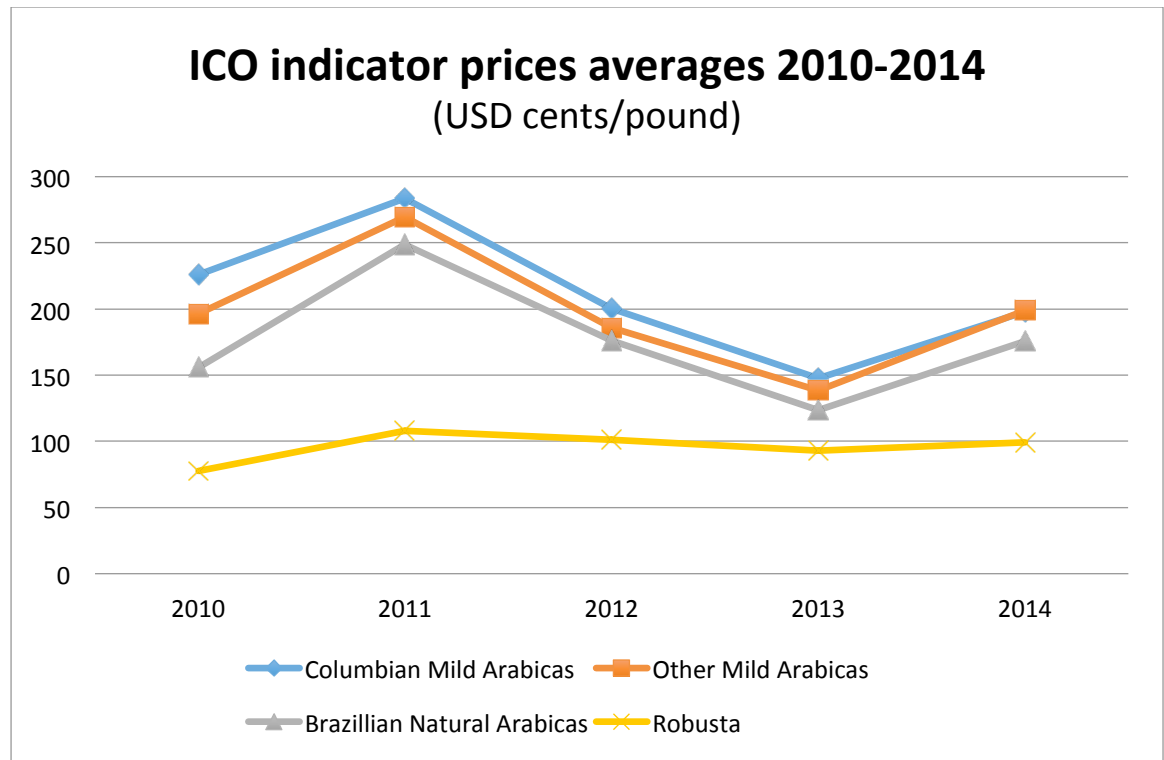


GRAPH 6. The export coffee's prices in the EU market of some leading coffee export countries (Europa.)

Although Vietnam is the second biggest of coffee export into the EU market, it can be easily seen from the Graph 6 that the average price of export coffee of Vietnam in the period of 2010-2013, is lowest compared to other countries. When compared to Columbia, which is famous with the high standard coffee – Arabica, its export coffee's price is double to Vietnam. When compare to Brazil, which is the biggest coffee exporter of the EU, its price of export coffee is also much higher than Vietnam. However, in generally, the coffee's price exported to the EU has been increasing from 2010 to 2013.

Some countries export coffee to the EU with high prices because they mainly export the kind of coffee that is Arabica. The Arabica is one of the most favourite kinds of coffee that the European people really like. Vietnam mainly exports Robusta. The price of coffee Arabica is normally much higher than Robusta (Graph 6). Especially in 2011, the price of Arabica coffee is more than 2.5 times the price of Robusta coffee. This year is remarkably noticed because the price of all kinds of coffee reached the highest prices in the period from 2010 to 2014. The reason of this phenomenon is that there was a sudden decline in coffee production of Columbia (31%), where has a biggest amount of Arabica coffee in

the world. Therefore, the price of Arabica coffee was increased, which caused price pressure on Robusta coffee. After 2011, the price of Arabica decreased gradually to 2013, then increase slightly in 2014. In contrast, the price of Robusta remained the same from 2011 to 2014.



GRAPH 7. ICO indicator prices average in the period of 2010-2014 (USD cents/pound) (ICO 2015.)

Another reason leading to the low price of Vietnamese coffee is the quality standard of product, compared to the international quality standard. It can be compared between Vietnam and Indonesia, they belong to the Asian area with the similar product structure and export the same kind of coffee, Robusta, but the price of Robusta coffee of Indonesia is still higher than of Vietnam even with a lower export output. Therefore, the quality of Vietnamese coffee is still a problem, affecting negatively the competitiveness in the EU market.

#### d) Quality of products

The EU is a potential market but really famous with strict regulations relating to technical barriers, quality standards and food hygiene. For the developing countries, such as Vietnam with a not really high level, will have many difficulties in exporting coffee to the EU market. The cultivation and processing of coffee production in Vietnam are not uniform, leading to a low product quality and the stability is not guaranteed. Vietnamese coffee exported into the EU market is returned with a quite high rate. Further, Vietnam still does not create their value of brand for the coffee products. These reasons lead to limited competitiveness. (Anninh, 2014.)

Although Vietnam is the second biggest country in the world for exporting coffee into the EU, when signing purchase contracts, Vietnam's coffee is often forced at a lower price, compared to other competitors, because of low quality standards of coffee and non-brand products. Therefore, coffee export turnover is still low. Besides that, coffee products exported into the EU market are mainly green coffee; the type of product is quite monotonic, which cause a low added value. Therefore, Vietnam needs to improve the competitiveness for coffee products with criteria, which are guarantee for not only quantity, but also the quality standards of coffee. Moreover, a stronger brand for products will make a higher price and contribute a higher market share, compared to other competitors in the same sector. (Anninh, 2014.)

#### e) Distribution channels

Vietnamese coffee mainly entered into the EU market indirectly through intermediate agencies of foreign enterprises. After that, intermediate agencies bring the product to importers or grind coffee companies in the EU. Vietnam has not enough ability to build its private distribution channels in the EU market. This leads to a lack of collecting information and feedback from the consumers about the products for renewing products to meet the customers' demand. In which, other competitors, such as Brazil or Columbia, have better activities in building distribution channels. Brazil has its organization of exporters, which have a role in finding and making agreements of business directly to importers. Brazil's coffee is mainly exported directly, not through any intermediate agencies; therefore, it brings not only the benefits of prices, but also creates reputation to the customer. Besides that, Brazil's coffee has also entered supermarket systems and

usually they have coffee programmes to serve coffee free to customers for trial. Columbia's agreement is for export with the implementation of the "Most Favorite Nation" (MFN). This MFN plays an important role in exporting coffee directly to the grind coffee companies in the EU, the connection between domestic markets to European importer, coffee distribution directly, not through any intermediate agencies (Huong, & Michael, 2015).

Vietnam has 150 exporters of coffee, distributed in Daklak and Hochiminh cities. They include the subsidiary of Intimex Import-Export Corporation (Intimex) and the Vietnam Coffee Corporation (Vinacafe). Tay Nguyen Coffee investment and import-export company (Vinacafe Tay Nguyen) is known as the largest exporter, which is a subsidiary of Vinacafe in Daklak, accounting for 20 per cent of the total Vietnam's coffee export (Nguyen Hang, 2011).

f) The Vietnam coffee brand

In a high-income market as the EU, which consumers are most concerned about is not necessarily the price that the product quality and the reputation of the brand. In recent years, Vietnam enterprises have carried goods trade promotion and searched partners through participation in trade fairs and brand promotion. Coffee Cultural Week to promote Buon Ma Thuot coffee in particular and Vietnamese coffee in general is held also drew the attention of the world, including representatives of large distributors and coffee roasters in the EU. This shows that Vietnam's efforts in introducing picture and Vietnam's coffee brand. However, still have to admit that, although Vietnam is still the second largest exporter to the EU, EU citizens still little known coffee brands of Vietnam.

Vietnam's coffee exports mainly mediated by the foreign trademark, over 90% of Vietnam's coffee is processed and packaged under the brand of other countries, so in reality coffee brand of Vietnam has not yet been confirmed. Recently, many companies have become aware of the importance of trademark, so they have begun carrying out the protection of trademarks and taking geographical indications for coffee products. However the numbers of enterprises registered in foreign countries are scant. Even famous coffee brand like Ban Me Thuot, is occupied China and France, exclusive trademark on some foreign markets. Vietnam also has some famous coffee products, but only with a geographical indication for Vietnam's coffee "Buon Ma Thuot" is famous all over the EU.

Meanwhile, other countries are very focused on this issue and registration of geographical indications for its products, both domestically and abroad, associated with the national picture.

TABLE 5. The famous geographical indications in the world of some coffee exporting leading countries into the EU. (Peter Baskerville, n.d.)

<b>Country</b>	<b>Geographical indications of coffee</b>
Brazil	Bahia, Bourbon Santos (Santos), Cerrado
Indonesia	Ankola, Celebes Toraja, Gayo Mountain, Java, Kopi Luwak, Mandheling Lintong, Sulawesi Toraja
Colombia	Armenia, Bogota, Bucaramanga, Cucuta, Manizales, Medellin, MAM
Peru	Chanchamayo Valley/Chanchamayo
India	Mysore

The instant coffee product, Vietnam only has Trung Nguyen coffee brand, which is already sold, assessed and builds the image in the EU market. Other countries have built many brands representing his country. For example like Brazil has Café Brazil, DoPonto, Melitta, Pllao and Caboclo or Colombia has Café Madrid, Juan Valdez, BluenDia. They had the promotion of branding for their country. Such as Colombia, the National Coffee Growers Federations of Colombia (FNC) has developed advertising strategies for consumers to recognize the unique qualities of the Colombian coffee than in other countries through a network of public channels and the spreading the image of Colombian farmers, which are harvesting coffee beans with the care around the world, to impress consumers. Additionally, Colombia also has advertising at sporting events like advertising billboards placed at the Alpine Ski World Cup or the championship ski of the world and Europe, helping many people recognize the Colombia coffee brands. Brazil has the program "Coffee and Health" with the guidance and public education on the benefits of using coffee in moderation on human health. (Vnexpress, 2012.)

Through above evaluation, it is clear that the competitiveness of Vietnam's coffee exports to the EU market is still relatively low compared to other competitors, especially in the countries from the Latin American region. Vietnam has advantages in terms of quantity exports, behind only Brazil, but is poorer than other countries in some aspects such as



product quality, hygiene and safety, structure types, distribution channels and brands. Thus, improving competitiveness is essential for Vietnam's coffee industry.

#### **4.4 Main factors affecting competitiveness of Vietnam's export coffee according Porter's Diamond**

##### a) Production factor conditions

###### ❖ Natural conditions

Vietnam has favorable natural conditions, which is suitable for the cultivation and development of the coffee tree. With two main coffees are Arabica and Robusta, Vietnam climate markedly divided into two zones adapting to each type of coffee. Arabica is suitable for northern region with high climate, cold winters and rainfall, and the elevation over 1,000 meters above sea level. As of 2014, total coffee acreage of Vietnam reached approximately 653,000 hectares, standing the 4th in the world. Land and soil have achieved high economic value such as basalt soil stretches from the Central Highlands to the Southeast. Thank to these natural conditions that has helped Vietnamese coffee reach high output capacity in the world and has been the characteristic of natural flavors. (Viettrade, 2014.)

###### ❖ Human resources

Vietnam with a population of 90 million people nationwide in 2014, is the 13th most populous country in the world and the 3rd in Southeast Asia, providing an abundant and cheap human resources (GSO, 2015). Particularly, the number of people in working age increased quickly and accounted for a high proportion of about 67 % of the national population. The total labour force in the coffee industry accounts for about 2 % of the labor force in the country. This is an advantage for Vietnam's coffee sector. (Supporting training center and human resource support, 2014.)

Recently, Vietnam's coffee sector has nearly 200 coffee processing enterprises, over 140 export enterprises with 4 leading enterprises that are Vietnam Coffee Corporation, Coffee 2/9, Intimex Import and Export Group, Thai Hoa Group, but businesses have experienced on the world market is not much. The quality and skill level of employees in the sector has yet to meet the demand. The coffee growers are mostly spontaneous, not much knowledge about plants and how to care for and harvest. Because of limited proficiency above, the

quality of coffee exports of Vietnam is not high, which reduces the strength of competition in the world market in general and the EU in particular. (Supporting training center and human resource support, 2014.)

However, recently, the level of development of human resources has been gradually paid more attention. According to Vietnam Ministry of Agriculture and Rural Development, Vietnam has about 13 universities and colleges that have majors in agriculture and forestry, emerged as two universities that are Agricultural University in Ha Noi and Agricultural and Forestry University in Ho Chi Minh City. Towards vocational colleges, professional secondary, vocational secondary schools and centers, around 60 % of them has agricultural and forestry vocational programs. There are also 28 institutes and research centers belonging to the Ministry of Agriculture and Rural Development. VICOFA Association and related agencies also actively disseminate knowledge and coffee cultivation techniques for farmers through extension programs, the seminar or agriculture workshops. (Supporting training center and human resource support, 2014.)

#### ❖ Capital

Coffee production mainly concentrated in small households and the investment is very limited. Most of them had to borrow from the bank and the bank is mainly Agriculture and Rural Development Bank. For coffee, the loan period is not long, usually one year with three times of borrowing. Thus, the farmers have to sell coffee in periods of low prices to repay and to be able to borrow for the next season, leading to little profit or even losses. On the other hand, farmers do not have the capital that have to buy materials and fertilizer from dealers on credit and then they often have an early harvest to sell to raise money to repay. Thus, production and business efficiency is not high.

Towards the enterprise, enterprises that have large capital are not many, especially is poor compared with foreign enterprises operating in the same field. Businesses need money for the purchase, production, stockpiling and export. However, due to limited funds, enterprises must mobilize loans from banks with high interest rates and short loan period, so operations have many difficulties.

#### ❖ Infrastructure

Infrastructure for the coffee industry is generally poor. Beside some businesses have systematic cultivation, processing and appropriate drying system, most households use the

area around the home as drying. They have no condition to build cement yards, so they have to use land yard. And there are not enough area to dry the coffee, so the coffee is dried with high density, leading to lack of sunlight, which affects coffee quality. The system of roads, dams and power reservoir are underdeveloped. Seaports are concentrated in the big cities, far from the coffee industry that makes it difficult for exporters. The processing plant has not really developed and the technology level is quite backward.

#### b) National condition

Domestic demand coffee consumption is considered low but are increasing. Vietnam's coffee production for export is 90 %. The domestic consumption is only 0.6 kg/person /year, while Brazil is 5-6 kg/person/year and the Nordic countries is 10 kg/person/year, which are quite different (Ngoc Hoi, n.d.). The poor consumption would not be enough incentive to encourage businesses to invest in coffee research tastes and needs of the domestic market, affecting the competitiveness of enterprises in the foreign countries. However, coffee consumption in Vietnam is recently growing gradually. Economic development has to accelerate the process of urbanization in many producing countries, including Vietnam and make significant changes to domestic demand, coffee is consumed more in the local market. This is a good sign for Vietnam's coffee industry. (Nguyen Hang, 2011.)

#### c) Related and supporting industries to coffee export

##### ❖ Producing fertilizer technology and plant protection products

As an agricultural country, Vietnam consumes a remarkable amount of fertilizer annually, but Vietnam fertilizer market is still not well developed, mainly is dependent on imports. Production technology of domestic fertilizer in Vietnam only meet 50 % to 60 % of the demand for urea, the fertilizer as SA, potassium must be totally imported. About the plant protection products, major sources of supply are still from imports. Because the manufacturing of synthetic chemicals for plant protection in Vietnam has not developed yet, enterprises in processing the plant protection products must still import a large amount of raw materials, causing a increasing costs. Moreover, another problem is that many farmers have to buy bad fertilizers and plant protection products. These products illegally cause a big harm to the ecosystem, destroying farmland and making a decreasing quality for coffee, which affects the competitiveness.

#### ❖ Transport and shipment

The transport and shipment from place of crop to place of production and processing is almost by road. 85 % of coffee is cultivated in small households. These households almost all have rudimentary means of transportation such as tricycles or motor cultivators. Businesses buy coffee in bulk, which may be transported through the transport company. And transport of goods exported to foreign countries are made mainly by sea freight, recently have developed in the air transport. Recently, the shipping industry and warehousing have been many new developments and meet the demand. However, the major seaports are concentrated in big cities like Saigon, Haiphong and Quang Ninh. Thus, transportation from rural areas of cultivation leads to many difficulties in production and many costs. Besides, the high oil price makes freight rates increased by 15 % to 20 % in 2010, also has an impact on coffee exports of Vietnam.

#### d) Firm strategy, structure and rivalry

Vietnam has nearly 200 coffee processing enterprises and over 140 exporters, but most are small and medium in size, lack of capital and experience and competitive situation in the domestic market is fierce that affects competitiveness. Most businesses are concentrated in commodities of coffee beans. Roasted, ground coffee and soluble coffee products are less concentrated, because it requires a large capital investment and high technology costs. Roasted, ground coffee and soluble coffee products, outside of Vinacafé and G7 which are coffee brands prestige of Vietnam, the rest mostly are from foreign firms such as Colombie Espresso, Ethiopia Espresso, Lavazza and so on. Besides, instant coffee market in the country is already in the hands of enterprises with famous brands like Vinacafé, Nescafe of Nestle and G7 coffee of Trung Nguyen. These enterprises strive to research new products, seek to improve production efficiency and increase the competitiveness of enterprises.

Cohesion within the industry structure is not close. The link between purchase and export has not been secured. The administrative capacity of exports is still weak. Many businesses make the signing of export contracts while no reserves are available for the coffee source, only is proceed when there is purchasing orders to collect goods. Thus, the price cannot be proactive. Moreover, the business sector has not been proactive in taking

advantage of the support from institutions and associations as well as with external connection to farmer. Farmers are planting, but still worry about the output, small production, and lack of market information. This is due to the coordinated operation along the coffee commodity chain is not effective. The link between growers and enterprises with the state is still weak.

#### e) The role of the government

##### ❖ Land policy

In 2003, the Land Law is changed to allow rights to use land that are transferred, inherited and used as collateral, that have created more favorable conditions for farmers in general and farmers in particular coffee, especially in the use as collateral for bank loans. A specific problem arises in the coffee industry formerly is that land previously considered as forest land shall not be used for agricultural purposes, making the immigrant group unofficially cannot register when they use forest land to cultivate coffee trees. This condition affects the ability to access capital on a minimum loan of farmers because they must have a valid land use rights. However, the Land Law 2003 allows transfer of forest land, which is used, in the production and land, which is not used, into agricultural land, provided that farmers have registered this conversion with the government.

##### ❖ Credit policy

The state issued the lending policies enabling objects operating in the coffee sector to access funds quickly and efficiently. Such as allowing credit outstanding agricultural loans is increased, the maximum loan is increased, the maximum loan is not secured by the assets will be 50 million Vietnam dong for producers, 200 million Vietnam dong on farms and cooperatives. Besides, the form of unsecured loan is also deployed to support poor farmers. In some cases, customers cannot pay their debts on time due to objective reasons, it is considered to extend the repayment period. To support credit for the harvest, increasing product quality, the State has issued Decision 63/2010/QD-TTg by the Prime Minister on October 25th, 2010, under which organizations and individuals may borrow preferentially through the system of Agriculture and Rural Development Bank to buy the machinery and equipment of domestic production to reduce post-harvest losses.

##### ❖ The orientation and planning policy

The state has given some directions to support the coffee industry for sustainable development in the future, such as Decision 150/2005/QĐ-TTg by the Prime Minister, in which the coffee acreage with charge stability from 450,000-500,000 hectares, producing about 1 million ton/year. Vietnam Coffee and Cacao Association has signed an agreement to deploy support 4 tons of hybrid seeds and more than 360,000 coffee hybrid seedlings to renovate the plant and also introduce policies to restructure the plant, increasing the area planted to coffee Arabica. Moreover, the state's role was reflected in activities such as trade promotion, the extension service and tax regulations.

f) The role of opportunities

In 2006, Vietnam joined the WTO that has opened up a great opportunity for Vietnam coffee to penetrate many markets and look to expand business cooperation, including the EU. More opportunities to expand in many potential market for coffee help Vietnam to learn more experience with coffee processing technology in advanced in the world from many countries such as Switzerland, Brazil, Ecuador and so on. In addition, it is also an important step for Vietnam to attract investment and support from international organizations. However, there are many new opportunities, there are also more challenges. That is pressure for Vietnam to be boosted export competitiveness in terms of coffee, gradually improve the quality and build image of coffee brand in the country.

#### **4.5 General comments on the competitiveness of Vietnam's coffee products exported to the EU**

a) Strengths

Vietnam has advantages in terms of natural conditions, weather and land that are very suitable for growing coffee, which ensures good growth for coffee trees with high yield and delicious distinct tastes. Large acreage of arable land which are fertile and rich in nutrients helps Vietnam gain large coffee output, ensure an ample supply to meet the needs of the market, has become the second largest coffee exporter in the world in general and the EU in particular.

Besides, Vietnam has an abundant cheap labor force, high percentage of young population with diligent, hard-working and enthusiastic characteristics. Abundant human resources

make cultivation, harvesting and production to be promoted, ensuring necessary schedule during the season.

On the other hand, Vietnam has a high growth of coffee exports that maintains a stable market share in the EU market for coffee products. From there, it creates opportunities for Vietnam to attract concessional resources, funding and technology from abroad to invest in Vietnam's coffee sector.

Coffee is one of the major export commodities of the country that always takes the attention of agencies and government levels as the investment policies, encouragement and support for farmers and businesses.

Furthermore, Trung Nguyen coffee brand of Vietnam have entered into the EU. This brand is evaluated and become an initial branding of Vietnam coffee in the EU market. This would be a starting step that helps stimulate other businesses in Vietnam in building the brand in the EU market and also facilitate further development for soluble coffee products.

#### b) Weaknesses and its reasons

Besides some strengths above, there are still many weaknesses compared with competitors in the EU market that Vietnam has to overcome.

##### ❖ Low coffee quality

Through competitiveness assessment, it was found that the quality of Vietnam's coffee is very low. The amount of coffee being discarded and substandard accounts the highest proportion in the world, so that influences coffee export price and coffee exports of the country. There are many reasons leading to the low quality of coffee. Firstly, it is about the quality of coffee seedlings that is poor. Seedlings have a very important role, not only affect productivity, but also determine the quality of the coffee beans. The best coffee seedlings have to be the top of the line, grafted or hybridization. However, in the three provinces with the largest coffee area of Vietnam just have only 29-40 % of the areas planted with selected seed coffee plant. According to statistical data of the technical scientific institutions of Highlands, 98.3 % of coffee seedlings are created by farmers, which is not up to standards; and only about 1.7 % of seedlings was grafted. Therefore, the quality of Vietnam's coffee is always lower due to the same coffee products of other countries (Le Ngoc, 2013.). Besides, there are many coffee areas had old coffee

plantations. Coffee plantations' rate in Vietnam aged 20-25 years accounts for 22 %, while the ratio of coffee plantations under 12 years of age only accounts for 50 %. This makes the coffee trees grow slowly; the beans are small and easy to pests. (Nguyen Cong Luan, 2011.)

Secondly, improper care for coffee trees is one of the ways affecting to the coffee quality. The knowledge of care for coffee plant of Vietnamese is still limited, mainly based on their experiences. Because of the desire to increase more quantity, they put more fertilizer for the coffee plant to increase yield that lead to a higher investment costs for fertilizer. The use of plant protection products is limited, do not focus on planting shade trees for coffee so when weather conditions are unfavorable, the coffee quickly depleted, reducing quality. Besides that, most farmers use a very high amount of water compared to the requirements of coffee. This is not only wasteful, but also degrade the fertility of the soil, so more of the nutrients in the soil are taken away along with excess water. Thus, coffee plants cannot absorb nutrients, is easy vulnerable to aging and diseases that affect the quality.

Thirdly, harvesting and preservation requirement are still not in a correct way. Because of the social security factor during harvest, especially in the time of coffee in high prices, fearing of theft, many farmers have harvested unripe coffee and ripe coffee. The coffee harvested is unripe directly impact on the quality of coffee. Also, fresh coffee storage immediately after harvest without drying is also popular. The reason is mainly the farmers can only take advantage of empty land around the house, not enough area for drying coffee and drying with high density that make the coffee beans become black and mold infections.

Additionally, the technology of processing is still backward. At the present, up to 80% in farming, coffee production is concentrated in small households and spontaneous, almost 20% is only in companies and large farms that have conditional investment processes techniques. However, in 80% yield in the processing of small households, there are 50 % of households lack of drying, there is no cement yard for drying coffee, which leads to product that is not hygienic, smell loss, impurities and does not guarantee quality. On the other hand, 80% of households have no dryer machine, are dependent on the weather, even the small household have dryers with old technology. Machinery imports are very low numbers due to large cost. Compared with the quality requirements for export, the



primary processing capacity is only 20% and high-quality drying technology only reached 20%.

❖ Low food hygiene and food safety

Coffee farming and coffee processing production are mainly in the household, which the level is still low and farmers do not have much knowledge as well as awareness of the importance of food hygiene, do not comply with requirements in stages such as fertilizers too much fertilizer, pesticide use, drying processes, processing in poor sanitary facilities and backward, and many impurities. Besides that, also due to limited funds, the investment has not been sufficient to be able to manage, test the product's sanitation and hygiene should be a survival of the Vietnamese coffee industry.

❖ Inappropriate structure of category

Vietnam's coffee export to the EU is mainly Robusta coffee type, which is not favored by markets, compared to Arabica coffees. The reason is that Arabica coffee fits northern climate of Vietnam, but in the past, these provinces are mainly in military region, newly expanded recently, so that the pace of expansion zones of this area is slower than the growth of Robusta coffee. Besides, the cost to produce Arabica is more than Robusta with the difference that is largely due to the labor force needs to add to the coffee pickers during the harvest season. Semi-processing of Arabica coffee is also more difficult, the semi-processing is very expensive and difficult to manage if you do not have the skills or the necessary basis. The trend of Arabica coffee consumption will continue to increase in the EU, while Robusta is often used as filler in coffee processing. Without rapid restructuring of the product, the Vietnam despite being ranked the second in the production of coffee, also will be considered under the heading of the world coffee sector.

❖ Poor distribution channel

Vietnam's coffee exports mainly indirectly through intermediary firms abroad, then no longer related to the distribution network in the EU internal market further. Distribution channels directly to the roaster processing enterprises, supermarket chains, retail stores in the EU have not been established, the number of access to importers is also less that is incapable of building own distribution channels. The reason is that Vietnam enterprises are mostly small and medium-scale with limited capital resources, much thinner than the foreign firms in the same sectors, and have less foreign relationship. The weak link

between businesses in the sector, in coordination across sectors is also a cause that not facilitate the distribution system penetration in the EU. Besides, the experience of Vietnam enterprises are limited with low level coffee and Vietnam have not confirmed the brand.

❖ Unknown brand for Vietnamese coffee

Excepting Trung Nguyen, which was initially built up the brand image, the Vietnam coffee brand are mostly unknown by European consumers. Since new businesses from Vietnam just engaged in the international market that focus only export sales without much awareness of the importance of building and protecting the brand and export mainly mediated by the foreign trademark. The market research, trade promotion and international marketing are limited and have not been adequate attention, lack of depth. This leads to Vietnam coffee prices being lower than competitors, as well as difficult to penetrate into the distribution system in the EU. (Vietnam News, 2013.)

## **5 MEASURES TO IMPROVE THE COMPETITIVENESS OF VIETNAM'S COFFEE PRODUCTS EXPORTED TO THE EU MARKET**

### **5.1 Forecasts of coffee import demand of the EU**

The EU market is a potential market for coffee products, where is the largest coffee importer in the world and is also place of the largest coffee consumer in the world, accounting for 32 % of world coffee consumption world in 2014. According to the Ministry of Agriculture and Rural Development, in the next years, coffee consumption worldwide will increase on average by 2 % / year. In the EU, with an increase of about 0.6 % / year in the period 2010-2015, is forecasted that the coffee consumption in EU is still remain to rise with above speed, lower than the world. In particular, a type of high quality Arabica coffee is more popular in the EU for the production of ground coffee, about 66 % of imports. Therefore, the forecast demand for Arabica coffee will remain relatively stable with growth rate of 0.7 % / year. Instant coffee market promising prospects as consumers increasingly appreciate the convenience of this product line. In global market in general and the EU in particular, soluble coffee is most consumed in the UK, expects demand for instant coffee products will continue to increase in the future. (TaiChinh, 2015.)

Due to higher living standards, the demand for coffee enjoyment of EU citizens is also very diverse in types and demanding. EU citizens are increasingly interested in organic coffee products, certified and internationally certified coffee as certified Fair-trade, UTZ Certified or RFA (Rainforest Alliances) as well as the proliferation of coffee shops focused on this segment and this has stimulated the development of the special coffee market. Thereby, it can be seen that the market prospects of the coffee product is great in the future, forecasting the consumption of certified coffee in the EU in 2016 is 20-25 % of the total volume of certified coffee trading in the world (CBI, 2015.)

## 5.2 SWOT analysis

Table 5 presents the strengths, weaknesses, opportunities and threats of Vietnamese coffee market.

TABLE 5. SWOT analysis

<b>Strengths</b>	<b>Weaknesses</b>
<ul style="list-style-type: none"> <li>• Vietnam has advantages in terms of natural conditions, weather and land.</li> <li>• There is an abundant labor force and cheap, high rate of young population with diligent, hard-working, enthusiastic characteristics.</li> <li>• The growth rate of export output is quite high, which maintains a stable market share on the EU market for coffee products.</li> </ul>	<ul style="list-style-type: none"> <li>• Quality standards and food hygiene are still low.</li> <li>• Export structure of coffee type are undiversified.</li> <li>• Vietnam coffee is not high valued.</li> <li>• The distribution system is not built.</li> <li>• Organization of processing chains is poor.</li> <li>• Vietnam coffee still does not build its brand and name in the world.</li> </ul>
<b>Opportunities</b>	<b>Threats</b>
<ul style="list-style-type: none"> <li>• Vietnam joined WTO, which helps Vietnam inherit the corresponding preferential countries, compared to other opponents of coffee exports to the EU.</li> <li>• The commercial relationship between Vietnam and the EU becomes more open and stronger, which creates conditions for business in Vietnam to enter into the EU market.</li> <li>• EU has a high demand and stability.</li> <li>• Coffee is one of the main export products of the country, which so devote more attention from agencies and the government.</li> </ul>	<ul style="list-style-type: none"> <li>• The deeper integration into the global economy makes Vietnam have more affects from the global crisis.</li> <li>• The rate of competition in the coffee market is more increasing.</li> <li>• The EU law system is quite complicated with many strict regulations.</li> <li>• The European customers become to require strictly about products' quality standards and the diversity of new kind of coffee.</li> <li>• The difference in level between Vietnam and the EU brings many difficulties for Vietnam's exporters.</li> </ul>

## 5.3 Oriented objectives to improve the competitiveness of Vietnam's coffee products exported to the EU market to 2020

### a) Overall objectives

By 2020, the whole of Vietnam's coffee products are manufactured and processing in standard and equal trading at exchanges in the country and abroad for the same or higher than similar products on the market. The added value of the product due to quality factor

gives 30-50 %; to minimize the damage to the coffee industry due to unfavourable fluctuations of world markets; contributing to stable lives; improving the income of coffee farmers, in which a majority of whom are ethnic minorities; improving profitability of the business and position of Vietnam's coffee on the international market and contributing significantly to the process of industrialization and modernization of the country (Ministry of Agriculture and Rural Development, 2008.)

b) Specific objectives

- Increasing Vietnam coffee yield up to 2020 that can reach 2.4 tons / ha to ensure sufficient production to meet the needs of export on EU market.
- In 2020, increasing the area of about 10 % Arabica coffee the total area of the country, Robusta accounts for about 90 % of the area, which in turn can increase Arabica coffee exports to the EU, in line with this markets.
- Striving to achieve the target to 50-70 % up to 2017 with Vietnam's coffee output transaction participants in the exchanges of high quality.
- Thrive coffee roasters and instant coffee, raising the level of deep processing of coffee products reached 20 % in 2017 and 30 % in 2020. In 2015, production of coffee roasters and soluble from 10,000 -15.000 tons / year, of which 50 % of exports. Since then, it appears more processed coffee products over to the EU.
- Certified coffee is 50 % of the area in 2017 and 80 % in 2020.
- Increased domestic consumption reaches 10-15 % of total production.

c) Orientations

- Towards to 2020, building a coffee industry with a sustainable development in terms of both producers and the natural environment and beings table coffee plantation area under planning, according to Decision 150/2005 / QD-TTg of the Prime Minister, the stable area from 450.000 to 500.000 ha. Conducting intensive 200,000 hectares of coffee under Decision No. 3988 / QD-BNN-TT of the Minister of Agriculture and Rural Development.
- Focus on improving the quality, organization and guide farmers to collect proper technique, limited to the minimum proportion of young green fruits. Invest and upgrade drying system and dryer. Gradually modernize recycling facilities, sorting coffee beans for export. Encourage enterprises to actively invest equipped machinery, advanced equipment and apply automated production lines and product quality

monitoring. Building a system of modern coffee consumption and adapting to process transactions in domestic and international

- Build market development strategy, a reasonable adjustment of product structure towards increasing the rate of Arabica coffee and certified coffee or finished products with higher added value, diversifying product processing turn to help increase economic efficiency and help Vietnam's coffee sector to reduce risks before the coffee price volatility of raw materials on the market.
- Renewal forms of organizing production and create links to combine the interests between the growers, the processing enterprises, service institutions and the government; developing economic cooperation forms and large production farm households. To encourage the formation of agricultural enterprises on the basis of people contributed shares equal to the value of land use rights and the value of coffee gardens to large manufacturing organizations towards sustainability.
- Completing the information system on the business environment, a distribution system and current prices. Actively applying in e-commerce transactions and purchases. Constructing distribution channel towards the export directly to roasters and processors to increase profits, realize the needs and trends of the market, export-mediated reduction, thereby supporting branding Vietnam coffee.
- Constructing and affirming Vietnam's coffee brand on the international market. Raising the awareness of enterprises in brand building, strengthening the confidence of customers and as a tool to protect the interests of the business.
- Continuing innovation for mechanisms and policies to support the coffee industry development, improve the efficiency of production and business. Collaborating with academic institutions, government proposed policies to encourage and support farmers and businesses of all economic sectors to large manufacturing organizations, safety and sustainability.

## 6 SOLUTIONS

From the weaknesses and causes mentioned above, it is easy to see that Vietnam needs to conduct a lot of the development to further enhance the competitiveness. However, due to limitations of time and space research, some key solutions mentioned as follows:

### 6.1 Improve coffee quality and food safety

#### a) The government

Firstly, to solve the problem of the seed coffee plants that requires good coffee plants, which produce good coffee quality, suitable and sufficient to meet the demand. Therefore, the Ministry of Science and Technology or as well as the Ministry of Agriculture and Rural Development should facilitate, link with other countries, organise trips and training courses for staff research or Technical Institute of Agriculture and breeding centres are exchange of learning at the research centre of the country that has a long tradition in the coffee industry as Brazil, Colombia... about the same research advanced methods. In addition, supporting for the Institute of Agricultural Science and Technology in the Central Highlands in order to implement the project on raising crops, such as assistance with funding for implementation, encouraging large enterprises to join to invest. (Anninh, 2014.)

To improve technology and primary processing, the government should support farmers with drying, ironing, as well as creating conditions for businesses to invest in modern processing line through financial support, priority preferential import tariffs for some machinery such as milling machines, sprinkler or coffee sorter. Besides, the government should provide more knowledge about processing technologies through channels or workshops and encourage coffee farmers interested in processing methods to improve the quality of coffee. (Anninh, 2014.)

Moreover, the government should also find and direct a number of agencies in the inspection and assessment of the quality of coffee exports, coffee to ensure coffee exported to the EU that meet the requirements under the new quality standards.

b) The enterprises

In renovation of breed coffee plants, farmers need a fairly large budget, so they need financial support from businesses. Besides, enterprises should take the initiative to contact a number of farmers to ensure products, assist them in re-cultivation, intensive high-quality coffee and techniques to manage the quality right from the step of choosing breed plant. Moreover, enterprises need to deal with farmers to buy high price for a standard coffee with ripe fruit, quality and thereby motivating people to enhance ripening fruits and be more careful in picking coffee. Enterprises should actively invest in machinery, advanced equipment and apply automation production lines and monitoring the quality of coffee and modernize processing facilities, compliance standards and national regulations.

c) The famers

Famers should use good coffee seed plants, not to the use of plant created by them. They should comply with the planting, proper care techniques to ensure the quality of coffee, to avoid infections and ensure food safety. Farmers should be actively involved in the courses related to coffee growing. Besides that, they should invest in machines in coffee processing.

## **6.2 Diversification of product structure**

a) The government

Business planning is one of the important measures. Ministry of Agriculture and Rural Development need to quickly plan and develop appropriate types of Arabica coffee in the EU market, ensure the operation in the market economy is "selling something that the market should, not only sell what they have". Noting that avoid planting, just focus on Robusta coffee cultivation and expansion of Arabica coffee in the appropriate areas, targeting areas Arabica coffee accounts for 10% of total coffee area of the country in 2020 as the target already mentioned above. The government should support condition for centre of seed coffee plants for research to create new plant, particularly high yielding Arabica type with good disease resistance. Besides, the government should also support the technical capital and arable farmers in expanding area of Arabica because the price of Arabica cultivation and production is relatively higher than Robusta. (Thin, N. N., 2015.)



The government should have planned to attract foreign investments into the coffee processing industry in Vietnam to use the advanced processing technology. Besides that, the government should provide policies such as tax credits and long-term bank loans or reduce import tariffs for some machinery for coffee processing to facilitate businesses that can invest in the modern machinery with application of standards, technical regulations advanced, increasing ground coffee products. (Thin, N. N., 2015.)

With activities such as implementation of programs to introduce positive effects of coffee on human health through the TV channels and radio stations, it can stimulate the domestic coffee consumption, raise domestic consumption to 10-15 % of total production, helping to generate demand and promote businesses grasp the needs and created new products to serve the domestic market as well as exporting more products to the EU, in order to meet the needs of this market. (Thin, N. N., 2015.)

b) The enterprises

Despite of Robusta coffee, enterprises need to boost exports of Arabica coffee, which is preferred to the EU. They should invest more machinery, equipment, application procedures and processing methods and innovative new coffee to produce the coffee roasters and soluble coffee with high value, creating products special coffee that adapts to EU market in high demand as premium coffee and products achieved the international certification. They should support farmers in capital and technology in the development of sustainable coffee. In addition, enterprises should strengthen promotional activities, marketing, propaganda and operational benefits of drinking coffee to raise the level of domestic consumption and make the specific research about needs of people enjoying coffee domestic consumption as well as the EU to have the changes and product improvements.

c) The famers

Farmers need coffee growing self-consciousness as planned following the local guide. They should not to expand the area of Robusta indiscriminately. They should enlist the technical support and funding from the project in the country and abroad provided by the government and the support of capital from enterprises to apply the cultivation process of coffee, achieving the international certificate, which have developed strongly in EU

market. They should limit the use of chemicals and pesticides to ensure friendly to environment, as these are important factors that EU consumers are increasingly concerned.

### **6.3 Organize a tighter coordination of activities in coffee export sector**

#### a) The government

The government should build a coordination committee for coffee commodity. This committee will have the participation of the ministries, research institutes and associations. The committee is responsible for proposing and overseeing the implementation of policies and strategies related to the coffee industry, research organizations, and training and quality control coordination. They also can collect, analyse and forecast information domestic market and abroad, carry out market development activities such as fairs, advertising, organizational reform the coffee sector, the implementation of joint activities international cooperation. (Thin, N. N., 2015.)

#### b) The enterprises

Enterprises need to link with farmers and cooperatives in financial support, technical and insurance to ensure the source at the beginning, and then sign a contract to purchase with these subjects, so that enterprises will not have to worry now compete to buy materials. Along with farmers, they should establish agricultural enterprises on the basis of people's contribution shareholding by land ownership value, the value of coffee gardens to large manufacturing organizations towards sustainability. Besides, the link between farmers and businesses also help regulate reasonable purchase price, market share information, ensure stable efficiency for both farmers and businesses. Completing the organization between coffee businesses will have an important impact on development. Enterprises will set up specialized marketing research system on the market, price and appropriate promotion plans. (TaiChinh, 2015.)

#### c) The famers

Farmers need to actively accumulate land, linked together through the cooperative model, large production farm households. On the other hand, receiving support from the government and enterprises, it is easier for them to seize the propaganda activities and policies. Besides, they can gather information about developments coffee market situation

in time, from which the organization can reserve or sale suitably. Besides, a large-scale collection will be able to be more active in the supply of goods when businesses place large orders and avoid the state of extorted.

#### **6.4 Develop distribution channels to EU**

##### a) The government

To boost trade relations between Vietnam - EU, signed the bilateral trade agreement between Vietnam and the EU, multilateral agreements ASEAN-EU, thereby reducing tariff barriers, non-tariff, facilitate the export and distribution of coffee to this market, to attract EU investment into Vietnam. At the same time, the government strengthens cooperation with other organizations in the EU as EFC coffee, SCAE. VICOFA is also actively involved in these organizations. From this, it can take advantage of technical support and financial resources for Vietnam enterprises to expand distribution channels into the EU, because the current capital of enterprises in Vietnam are very limited and can not build additional distribution channels. On the other hand, it is full of opportunities to reach out to the importers, roasters businesses large coffee roasters in town, help restrict exports indirectly through intermediary firms. Embassy of Vietnam in the EU need actively support and provide information on market conditions, legal system, competition and answer the questions of trade for local businesses. Besides, they need to provide business advice to learn how and market access to be able to take advantage of unforeseen opportunities and risks while building distribution channels to the EU market. Moreover, the government should create the legal environment for e-commerce development to help the commercial activities of enterprises in the EU more convenient. Since then, businesses can enhance advertising, contracting and distribution of coffee to the EU. (Thin, N. N., 2015.)

##### b) The enterprises

Small and medium businesses often have difficulty in penetrating directly into the EU, so they should primarily remain largely through indirect distribution channels but must be controlled and dominated by that network. Besides, the enterprise gradually links and cooperates with the EU to create trust, signing long-term contracts. Meanwhile, it cannot only just take advantage of the system and technical base, avoid initial investments while

still limited in finance, but also has received the support of partners in operating expenses of import procedures and the new information policy in the EU. Once these enterprises have prepared all the necessary conditions for the adoption of indirect distribution channels, on the other hand gradually establish representative offices, agents or subsidiaries. (TaiChinh, 2015.)

Besides, enterprises should actively participate in trade promotion programs of Vietnam to the EU by the fairs, coffee festival and coffee associations in the EU to have the opportunity to meet major partners. These enterprises should also organize trade fairs, conferences customers to introduce new coffee products. They participate in trading the product on the coffee trading center of Buon Ma Thuot, promoting participation in major coffee exchanges in the EU, such as Londo and have their cooperation links with overseas Vietnamese entrepreneurs in the EU to expand the sales network. (TaiChinh, 2015.)

### **6.5 Brand for Vietnam coffee products exported to the EU**

#### a) The government

Government should propagate widely to businesses about the importance of the development and protection of trademarks and geographical indications through the mass media. Specifically in the case of Vietnam stickers were stolen by foreign enterprises, these enterprises registered trademarks in some markets, causing difficulties for the export of Vietnam, if still just put the stolen brands in these markets, it will be considered as counterfeit and pirated goods. The worse situation is that businesses can take a large sum of money to regain the brand if they do not want to loose opportunity of doing business. Besides, the government also needs to invest, to provide information to businesses on the conditions, rules and procedures for registration in the domestic market and the EU. Committees at all levels in collaboration with businesses holding coffee festival as Festival coffee Buon Ma Thuot, this is not merely a commercial event, promote Vietnam's coffee brand but also Vietnam cultural collaboration with grab coffee culture of the world in general and the EU in particular. (Thin, N. N., 2015.)

#### b) The enterprises

The enterprises should export products of good quality coffee, reduce intermediary distribution channel to gradually build prestige brand for Vietnam coffee. Moreover, they

focus on packaging of coffee in order to increase the attractiveness of the product, so the packaging should be printed brand logo Vietnam. They should have marketing activities, such as website promotion, enjoying free coffee events at the large supermarkets in the EU and introduce products in the conference program or workshops in this market. In addition, businesses should focus on building the brand, geographical indications, complete the procedures in the industrial property and copyright of labels not only in Vietnam but also in the EU market, to avoid the product then the new preferred registered. (TaiChinh, 2015.)

### **6.6 Create funds for investment, purchasing, processing and exporting coffee to the EU**

Through making research about the causes and weakness, as it can be seen that lack of funds has affected the competitiveness of Vietnam coffee. A lack of capital leads to difficulties in technological innovation as well as management of primary processing. The lack of capital leads to low-scale factories, so businesses cannot invest more equipment to boost the coffee processing industry of high value and difficulty in developing distribution channels into the EU. Therefore, the government should invest directly or indirectly through development programs of infrastructure in key areas, serving the cultivation and processing of coffee. The Ministry of Agriculture and Rural Development should have a written request to the national bank researching for business loans with reasonable interest rates, consider adjusting the lending conditions, increased adoption rates form for the mortgage loan. Besides, the government should create favorable conditions for farmers to bank loans for intensive investment for sustainable development, expanding production and also support for investment and production for farmers under the cooperative model focuses. For the enterprises, the government and national banks should have capital support for enterprises with a clear business strategy to minimize risk and avoid losses to ensure capital adequacy and solvency. (Thin, N. N., 2015.)

## 7 CONCLUSION

An assessment of the situation and improvement of competitiveness of Vietnamese export coffee into the EU market is necessary and inevitable. Therefore, the thesis has focused on clarifying the general theory of competitiveness including the concept of competition, competitiveness and export competitiveness, and the evaluation criteria for competitive research base for the subject. Reaffirming the need to enhance the competitiveness of Vietnam's coffee products exported to the EU market due to the importance of the EU market in the expansion into new markets, fierce competition on the market as well as the limitations existing in the competitiveness of Vietnam's coffee export.

Using the theoretical basis for the analysis and assessment of the government of competitiveness of Vietnam's coffee products exported to the EU market, compared with competitors in the market like Brazil, Colombia or Indonesia, the thesis has pointed out that the competitiveness of Vietnam's coffee products exported to the EU market is still lower than other countries. Although there are strong points as coffee exports to the EU market is number two, the advantage of natural conditions, climate, cheap labour and abundant; there also exist many weaknesses as low coffee quality, mainly exports coffee as raw material, less processed, less species richness, less diversity, less largely export-mediated, not build own brand. These problems need to be solved to improve Vietnam's coffee industry.

Based on the basis of forecast about the demand of EU coffee market, SWOT matrix, it can be generalized the strengths, weaknesses, opportunities, challenges, objectives and orientations for the period up to 2020. This thesis has proposed a number of measures to improve the competitiveness of Vietnamese coffee products exported to the EU market and enhance coffee quality and food safety, diversification of product structure, organize a tighter coordination of activities in coffee export sector, develop distribution channels to EU, brand for Vietnam coffee products exported to the EU and create funds for investment, purchasing, processing and exporting coffee to the EU

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